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Agenda Item 7a

March 15, 2011

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Long-Term Care Program Second Quarter Financial Report and Program Update
- II. PROGRAM:** Long-Term Care
- III. RECOMMENDATION:** Information
- IV. BACKGROUND:**

The purpose of this agenda item is to provide the Health Benefits Committee with the results of the CalPERS Long-Term Care (LTC) Program second quarter financial report as of December 31, 2010, provided by United Health Actuarial Services, Inc. (UHAS).

An updated projection of future cash flows, as well as evaluation of current assets and premium levels was conducted by UHAS and the results are provided in Attachment 1. As the starting point for the development of the second quarter 2010 valuation, UHAS incorporated assumptions from the 2009-2010 annual valuation (June 30, 2010) as well as the September 30, 2010 valuation.

The 2009-2010 annual valuation provided projections with and without the 5% premium increase implemented on July 1, 2010. The September and December 2010 valuations provide the financial status of the LTC Program after the premium increase took effect.

V. ANALYSIS:

The current investment/discount rate assumption is 7.79%; however, staff additionally used the alternate scenario discount rate of 6.38% and a 10-year smoothed 5.5% rate in analyzing the impact of both the investment return and the premium increase to future LTC Fund projections.

The following table illustrates the progression of the margin/(deficit) since the June 30, 2010 annual valuation, as well as the September, 30, 2010 and December 31, 2010 valuations after the implementation of a 5% annual premium increase on life-time policy holders.

Valuation Date	Results	Investment / Discount Rate
6/30/2010 with 7/1/10 rate increase	24.25%	7.79%
7/1/2010 Rate Increase		
9/30/2010 with 7/1/10 rate increase	29.16%	7.79%
12/31/2010 with 7/1/10 rate increase	32.57%	7.79%

The December 31, 2010 valuation of the LTC Fund forecast improved from a Program margin of 29.16% as of September 30, 2010 to a Program margin of 32.57% as of December 31, 2010 based on a discount rate of 7.79% and an annual premium increase of 5% on members holding life-time policies.

If a scenario discount rate of 6.38% is applied in combination with the premium increase of 5%, the Program margin increases from 0.10% to 3.04% from September 30, 2010 to December 31, 2010.

When a discount rate of 6.38% is applied and smoothed to 5.5% by 2018, the fund shows a deficit of (14.31%), a 2.6% improvement between September 30, 2010 and December 31, 2010.

In summary, the second quarter financial report shows continued improvement in the LTC Program. The results included investment returns that were greater than projected and overall Program administration and claims expenses that were slightly lower than projected. Premiums were lower than projected because of member policy conversions and reductions in daily benefit amounts. The corresponding actual cash flow exceeded projected cash flow by \$285.2 million from June 30, 2010 to December 31, 2010. However, the ongoing rate increases are necessary to meet the desired level of margin.

UHAS Recommendations

Given the results of this valuation and the supporting analyses, UHAS recommends the following:

- Continue to support the CalPERS investment staff in the development of the investment strategy for the LTC Program;

- Determine appropriate margin after the investment strategy is confirmed or revised, and continue with the ongoing premium rate increases until the desired margin is met;
- Allow new entrants into the LTC Program after the desired margins are set, the premium rate increases to meet these margins are approved, and progress is made towards achieving the desired margin with implemented rate increases; and,
- Closely monitor emerging experience and report to CalPERS staff on a quarterly basis regarding actual versus projected experience.

Other Considerations

The CalPERS LTC Program could benefit from a strategy that considers not only the asset allocation and premium issues, but also other factors that contribute to financial stabilization such as improvements in existing benefit design and program reporting requirements.

Benefits that promote independence and the maintenance of the member in the home rather than institutional care are being explored under the current Univita contract, along with additional long-term care product innovations, networks and members services. Examples include:

- Identifying value-added benefits that are cost neutral and promote independent living. The interactive web and resource tool, Univita Living, is ready for implementation for the CalPERS LTC membership with no additional cost to CalPERS during the existing contract;
- Identifying benefit designs for the existing population that lead to better, more independent care at lower costs;
- Evaluating care management programs and improving performance goals to promote prevention and wellness;
- Reporting financial and actuarial improvements on a quarterly basis;
- Analyzing detailed LTC Program claims reports by CalPERS actuarial and underwriting staff;

- Conducting a population health study, as presented to the Health Benefits Committee in August 2010, comparing CalPERS LTC members who also have CalPERS health coverage to determine if access to LTC insurance and services reduces overall health utilization and healthcare costs;
- Investigating fraud and member misrepresentation to recover claims dollars for the LTC Fund;
- Holding an open application period to refresh and improve the risk pool; and,
- Conducting specific long-term care information and feedback sessions for constituents.

Next Steps

The LTC Program sustainability needs strengthened program oversight and evaluation. The following ideas are suggested to improve financial performance in the short term as well as develop ideas for longer term sustainment.

- Review asset valuation and approved discount rates going forward; consider moving to a more conservative asset allocation since the Program is funded exclusively from investment returns and member premiums;
- Assess viability of a 9-year policy benefit design change in advance of the July 2011 rate increase to provide a less expensive alternative to the lifetime comprehensive plan; prepare a business case and scenarios around this proposed change;
- Engage constituents and identify other innovative benefit designs to propose for 2011/2012 fiscal year implementation;
- Modify monthly Univita claims reports to allow for internal actuarial analysis and validation;
- Implement LTC population health study as described in the August 2010 Agenda Item; and,
- Roll out the Univita Living product to the LTC members and hold educational workshops.

VI. STRATEGIC PLAN:

This item relates to Strategic Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

Costs associated with the valuation report are within the current terms of the agreement.

KATHY DONNISON, Chief
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Attachment